

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58063

GRAYS HARBOR COUNTY, WASHINGTON

January 1, 1995 Through December 31, 1995

Issue Date: January 31, 1997

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GRAYS HARBOR COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Board of Commissioners
Grays Harbor County
Montesano, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of Grays Harbor County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated January 16, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Grays Harbor County is the responsibility of the county's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the county's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the county complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the county's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the county and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

For Grays Harbor County the results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*. However, during our review of South Beach Park and Recreation, a Category 3 special purpose district of Grays Harbor County associated with the county's financial statements, we noted instances of noncompliance immaterial to the county's financial statements which are identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

January 16, 1997

GRAYS HARBOR COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level**

Board of Commissioners
Grays Harbor County
Montesano, Washington

We have audited the general-purpose financial statements of Grays Harbor County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated January 16, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the county, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal

control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the county in a separate letter dated January 16, 1997.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

January 16, 1997

GRAYS HARBOR COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. Public Funds Were Misappropriated From The Grays Harbor County Clerk's Office And Public Records Were Falsified

On November 4, 1996, the Grays Harbor County Clerk notified the Office of the State Auditor of an apparent misappropriation of funds in the county clerk's office. Our audit of the financial records of the county clerk's office revealed that at least \$410 in public funds was misappropriated by a deputy clerk during the period of October 1, 1996, through October 31, 1996. There were no federal funds involved in this case. These funds were misappropriated as described below.

- a. Recorded manual cash receipts were taken by the deputy clerk. Three manual cash receipts issued during the daily close-out of the cash register were not immediately recorded on the cash register when cash receipting activity resumed. One of these transactions was a restitution payment that was subsequently recorded three days after the original transaction occurred. The remaining funds from the other two transactions were simply taken. In addition, our review determined that all manual receipts issued by the clerk's office prior to September 16, 1996, had been prematurely destroyed. The net amount of loss from this method was \$290; however, \$50 of this amount was subsequently returned.
- b. Unrecorded cash receipts were taken and accounting records were falsified by the deputy clerk. One filing fee transaction was inappropriately waived without a court order supporting this action. The customer actually made this payment by money order; however, the deputy clerk altered this negotiable instrument and cashed it. The amount of loss from this method was \$120.

On December 4, 1996, the deputy clerk stated to a Grays Harbor County Sheriff's Detective that she had misappropriated public funds from the county during her period of employment. She resigned her employment with the clerk's office on December 12, 1996.

RCW 42.20.070 states:

Misappropriation and falsification of accounts by public officer. Every public officer, and every other person receiving money on behalf or for or on account of the people of the state or of any department of the state government or of any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town or any school, diking, drainage, or irrigation district, who . . .

(1) Shall appropriate to his own use or the use of any person not entitled thereto, without authority of law, any money so received by him as such officer or otherwise; or

(2) Shall knowingly keep any false account, or make any false entry or erasure in any account, of or relating to any money so received by him or her; or

(3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account; or

(4) Shall wilfully omit or refuse to pay over to the state, its officer or agent authorized by law to receive the same, or to such county, city, town, or such school, diking, drainage or irrigation district or to the proper officer or authority empowered to demand and receive the same, any money by him as such officer when it is a duty imposed upon him by law to pay over and account for the same, shall be punished by imprisonment in a state correctional facility for not more than fifteen years.

The following internal control weaknesses allowed these losses to occur and not be detected by county management officials in a timely manner.

- a. Official prenumbered cash receipt forms were not used. Generic cash receipt forms were used to record cash collections from customers; however, these forms provide no control over revenue transactions because they can be obtained from any office supply store.
- b. Cash receipt books were improperly maintained. For example, some receipt forms had been omitted and left blank in the book, all copies of several receipts were missing, and all copies of voided receipt forms were not retained on file. In addition, cash receipt books were destroyed once the book had been completed.
- c. Cash receipts were not properly accounted for and controlled. There was no controlled transfer of funds when cash receipts from transactions were passed from one employee to another. For example, while one employee issued a manual cash receipt for cash collections, another employee actually recorded the transaction in the cash register.
- d. There was no supervisory review to verify that all funds collected from transactions recorded in the manual cash receipts book were subsequently entered in the cash register. In addition, manual cash receipt transaction numbers were not cross-referenced in the cash register's note field.
- e. There was no supervisory review of noncash credit transactions, such as waived filing fees, to ensure that these high risk transactions were properly approved and supported by appropriate documentation.

Grays Harbor County has a personnel dishonesty bonding policy for all employees. However, this loss was not covered by the bonding company because it was less than the deductible provision of the policy and the policy has a provision excluding the recovery of related audit/investigation costs.

We recommend Grays Harbor County seek recovery of the misappropriated \$360 and related audit/investigation costs from the deputy clerk. We further recommend the Washington State

Office of the Attorney General and the Grays Harbor Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and the State Auditor, as directed in RCW 43.09.260.

We also recommend the county review overall accounting controls over cash receipts in the county clerk's office, correct the weaknesses outlined above, and implement an effective system of internal controls designed to ensure the protection of public assets.

Auditee's Response

A criminal case has been filed in the Superior Court with the deputy clerk named as defendant. The recommendations of the State Auditor are already in place or are being implemented.

2. South Beach Park And Recreation District Should Comply With Applicable State Laws And Regulations

During our annual audit of Grays Harbor County, several issues came to our attention concerning South Beach Park and Recreation District. The following improprieties were noted:

- a. District revenues were being passed to a nonprofit organization, rather than being deposited with the district's treasurer, Grays Harbor County. In addition, the nonprofit organization paid for district expenditures rather than the district processing them through the Grays Harbor County warrant system.
- b. Minutes for several commission meetings are either missing or were not prepared.
- c. There are no official, signed copies of minutes.
- d. Accounting records are missing or were never created, including cash receipting and expenditure records.
- e. Vague, oral agreements exist with nonprofit organizations, whereby the non-profit organizations manage, maintain and/or repair district assets (specifically the Grayland Community Hall) in exchange for free use of the assets. No formal contract or agreement exists which outlines specific consideration or duties to be performed by each party. Also, there are no references to a time period for the agreement.

The Washington State Constitution Article XI, Section 15 states:

DEPOSIT OF PUBLIC FUNDS. All moneys, assessments and taxes belonging to or collected for the use of any county, city town or other public or municipal corporation, coming into the hands of any officer thereof, shall immediately be deposited with the treasurer, or other legal depositary to the credit of such city, town, or other corporation respectively, for the benefit of the funds to which they belong.

RCW 42.32.030 requires:

The minutes of all regular and special meetings except executive sessions . . . shall be promptly recorded and such records shall be open to public inspection.

RCW 40.14.070 states in part:

. . . Except as otherwise provided by law, no public records shall be destroyed until approved for destruction by the local records committee.

The State Archivist and the State Auditor under authority of RCW 40.14.070, have established a records retention schedule for municipal corporations which requires minutes to be held permanently, receipts to be held for six years, and bank records to be held until after the audit.

RCW 36.69.150 states:

The county treasurer of the county in which the district shall be located shall be the treasurer of the district, and expenditures shall be made upon warrants drawn by the county auditor pursuant to vouchers approved by the board of park and recreation commissioners.

Good business practices dictate that all agreements and contracts be formally drawn up, approved and signed, with all terms and dates specifically outlined. This helps ensure that assets are adequately safeguarded.

The district was unaware of the records retention requirements, and of the requirement for official, signed minutes.

The lack of minutes and other records prevents the public from having access to the complete information of the district's activities and increases the risk that error and irregularities will not be detected in a timely manner. In addition, because of this lack of records, we were unable to assure ourselves that the financial records obtained include all transactions of the district.

By not processing all transactions through the county, the district may be bypassing the approval process of the commissioners. Further, there is no way to ensure that all moneys are accounted for and spent correctly.

We recommend the district maintain official copies of minutes for all commission meetings and retain financial records in accordance with RCW 40.14.070.

We further recommend the district deposit all revenues with the county treasurer and process all expenditures through the county auditor.

We also recommend the district enter into only formally written and signed agreements and contracts, with all terms and dates specifically stated.

Auditor's Concluding Remarks

Based upon the county's response, it appears the situation described in Finding 1 is being properly addressed. We will review this issue again in our next regular audit of the county.

No response was obtained from the South Beach Park and Recreation District. However, some of the conditions described in the finding have already been corrected. The community hall is no longer being operated by a private nonprofit corporation. Also, cash and investments of the park and recreation district are now being held by the Grays Harbor County Treasurer.

We would like to thank the staff of Grays Harbor County for their assistance and cooperation throughout the course of the audit.

GRAYS HARBOR COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Financial Statements And Additional
Information**

Board of Commissioners
Grays Harbor County
Montesano, Washington

We have audited the accompanying general-purpose financial statements of Grays Harbor County, Washington, as of and for the fiscal year ended December 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grays Harbor County, at December 31, 1995, and the results of its operations and cash flows of its proprietary fund types similar trust funds for the fiscal year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of State Financial Assistance listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The special purpose districts listed in the supporting schedule are audited as a part of the trust and agency funds of Grays Harbor County.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 16, 1997, on our consideration of the county's internal control structure and a report dated January 16, 1997, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

January 16, 1997

GRAYS HARBOR COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Additional Information Regarding Audits Of Special Purpose Districts Included In
Trust And Agency Funds**

The State Auditor's Office has established audit policies for special purpose districts associated with the county's financial statements. These audit policies are designed to reflect low audit risk assessment, minimize audit costs, and apply auditing procedures that are appropriate to the district's size and other factors. For the purpose of these policies, special purpose districts are defined as most separate municipal corporations which use the county auditor and treasurer as ex-officio officers. Special purpose districts include:

- Unclassified Public Utility Districts
- Public Hospital Districts
- Unclassified Port Districts
- Cemetery Districts
- Ferry Districts (except county ferries)
- Fire Protection Districts
- Park and Recreation Districts
- Mosquito Control Districts
- Weed Control Districts
- Animal Pest Control Districts
- Ambulance and First Aid Districts
- Irrigation Districts
- TV Reception District
- Diking Districts
- Flood Control Districts
- Drainage Districts
- Diking and Drainage Districts
- Water Districts
- Sewer Districts
- Water/Sewer Districts

These policies DO NOT apply to school districts, airport districts, road improvement districts, county road and bridge service districts, utility local improvement districts, local improvement districts, metropolitan park districts, public transportation benefit areas, housing authorities, solid waste collection districts, county rail districts, lake management districts, or any economic or industrial development districts.

Classifications

Special purpose districts are classified into three categories determined by the amount and source of revenues. These categories define audit planning and scheduling, auditing procedures and levels of testing, billing procedures, and audit reporting requirements.

Category 1 Districts

All special purpose districts, regardless of type, which either:

- a. Had more than \$500,000 of revenues in any year being audited, or
- b. Received \$25,000 or more of direct or indirect federal assistance in any year being audited.

Category 1 districts are audited individually and each receives its own audit report. The Category 1 districts associated with the county's financial statements are:

Grays Harbor County Fire District No. 2

Category 2 Districts

All special purpose districts which had total revenues of at least \$25,000 but not more than \$500,000 in any year being audited and which received less than \$25,000 in direct and indirect federal assistance. Additionally, the following types of districts will be considered as Category 2 even if their annual revenues are less than \$25,000:

Public Utility Districts
Public Hospital Districts
Irrigation Districts
Water Districts
Sewer Districts
Water/Sewer Districts
Port Districts

These types of districts have greater audit risks than other types of districts of equivalent size because they typically received a significant amount of their revenues from locally generated sources rather than through taxes and assessments.

Category 2 districts are audited as a group using limited auditing procedures. A single, combined audit report is issued for the Category 2 districts. The Category 2 districts associated with the county's financial statements are:

Grays Harbor County Fire District No. 1
Grays Harbor County Fire District No. 3
Grays Harbor County Fire District No. 4
Grays Harbor County Fire District No. 5
Grays Harbor County Fire District No. 7
Grays Harbor County Fire District No. 8
Grays Harbor County Fire District No. 10
Grays Harbor County Fire District No. 11
Grays Harbor County Fire District No. 12
Grays Harbor County Fire District No. 14
Grays Harbor County Fire District No. 15
Grays Harbor County Fire District No. 17
South Beach Ambulance Service
Grays Harbor County Water District No. 1
Grays Harbor County Water District No. 2
Grays Harbor County Water District No. 3
Grays Harbor County Water District No. 7

Category 3 Districts

All special purpose districts which had total revenues of less than \$25,000 in any year being audited except those districts specifically listed in Category 2.

Category 3 districts are audited only at the county level using auditing procedures appropriate for a trust and agency fund. No separate audit reports are issued for Category 3 districts. The Category 3 districts associated with the county's financial statements are:

- Grays Harbor County Fire District No. 6
- Grays Harbor County Fire District No. 16
- Grays Harbor County Fire District No. 18
- Grays Harbor County Cemetery District No. 1
- South Beach Park and Recreation District
- Grays Harbor County Drainage District No. 1
- Grays Harbor County Drainage District No. 2

GRAYS HARBOR COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Board of Commissioners
Grays Harbor County
Montesano, Washington

We have audited the general-purpose financial statements of Grays Harbor County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated January 16, 1997. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of Grays Harbor County taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

January 16, 1997

GRAYS HARBOR COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Board of Commissioners
Grays Harbor County
Montesano, Washington

We have audited the general-purpose financial statements of Grays Harbor County, Washington, as of and for the fiscal years ended December 31, 1995, and have issued our report thereon dated January 16, 1997.

We have applied procedures to test the county's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements, including subrecipient monitoring

The following requirement was determined to be not applicable to its federal financial assistance programs:

- Relocation assistance and real property acquisition

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the county had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

January 16, 1997

GRAYS HARBOR COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs**

Board of Commissioners
Grays Harbor County
Montesano, Washington

We have audited the general-purpose financial statements of Grays Harbor County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated January 16, 1997.

We also have audited the county's compliance with the requirements applicable to its major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements include:

- types of services allowed or unallowed
- matching
- special tests and provisions related to Highway Planning and Construction (WSDOT) (CFDA 20.205) - vouchers, right-of-way, extensions, and sampling and testing as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments*
- claims for reimbursements
- and amounts used for matching

The management of the county is responsible for the county's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the county's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, Grays Harbor County complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance program for the fiscal year ended December 31, 1995.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

January 16, 1997

GRAYS HARBOR COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions**

Board of Commissioners
Grays Harbor County
Montesano, Washington

We have audited the general-purpose financial statements of Grays Harbor County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated January 16, 1997.

In connection with our audit of the financial statements of the county and with our consideration of the county's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the fiscal year ended December 31, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that Grays Harbor County had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

January 16, 1997

GRAYS HARBOR COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Board of Commissioners
Grays Harbor County
Montesano, Washington

We have audited the general-purpose financial statements of Grays Harbor County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated January 16, 1997. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated January 16, 1997.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether the county complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the county's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on the compliance with requirements applicable to major programs, and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and internal control structure procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated January 16, 1997.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Accounts payable
 - Payroll
- **General Requirements**
 - Political activity
 - Davis-Bacon Act
 - Civil rights
 - Cash management
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements, including subrecipient monitoring
- **Specific Requirements**
 - Types of services
 - Matching
 - Special requirements
- **Claims For Advances And Reimbursement**
- **Amounts Claimed For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Cash receipts
 - Cash disbursements
 - Receivables
 - Purchasing and receiving
 - Inventory control
 - Property, plant, and equipment
 - General ledger
- **General Requirements**
 - Relocation assistance and real property acquisition

- **Specific Requirements**
 - Eligibility
 - Level of effort and earmarking
 - Reporting
- **Amounts Used For Matching**

During the fiscal year ended December 31, 1995, the county expended 55 percent of its total federal financial assistance under major federal financial assistance program and the following nonmajor federal financial assistance programs: Federal Forest Yield (CFDA 10.665), Community Development Block Grant (CFDA 14.228), Child Support Enforcement (CFDA 93.563), and Maternal and Child Health Grant (CFDA 93.994).

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to the county's major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance, and the aforementioned nonmajor programs. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses, as defined above.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

January 16, 1997